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## **CHAPTER: Administration**

### **SECTION: Overview of the Specialized Compliance Program**

### **Section 100-2**

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#### **Introduction**

The Office of Thrift Supervision established a specialized examination program for compliance matters in January 1989. Separate examinations for compliance matters are conducted by a specialized, dedicated, career-professional examination force. The significant features of this program are discussed below. This program reinforces the importance that OTS places on the compliance area and strengthens its overall approach to examination and supervision of saving associations.

#### **Significant Features of the Specialized Program**

Generally, the significant features of the examination program involve the use of specially-trained examination personnel who conduct separate compliance examinations. The OTS provides these personnel with a specialized training program. Separate reports of examination are presented to an association's board of directors. The OTS uses separate rating systems to evaluate an association's compliance and CRA performance. The rating systems provide a mechanism to trigger the frequency of subsequent examinations.

#### **Handbook**

The Compliance Activities Handbook, which is part of the Regulatory Handbook Series, embodies the written principles and procedures of this new program. In addition to providing materials relevant to the conduct of examinations, the Handbook has a larger role as an educational centerpiece for both examiners and associations.

#### **Training**

Each Region has a staff of specialists whose primary responsibility is the conduct of compliance examinations.

Examination personnel involved in the specialized program receive training both in the rudiments of the laws and regulations and in examination approach and philosophy. OTS sponsors periodic two-week basic schools for compliance matters. Topical seminars are conducted periodically as important issues arise.

#### **Examination Conduct**

Specialized compliance examinations are conducted using a "top-down/risk-focused" examination approach. This approach both shifts the examination focus away from individual transactions, to a broad based review of internal policies, procedures, and review programs and to areas of greatest risk. This review is supplemented by an evaluation of the integrity of these internal systems through hypothesis testing using judgmental sampling. This approach is detailed in this Handbook.

#### **Reports of Examination**

Separate reports to an association's board of directors are prepared for examinations conducted under this specialized program. These reports are comprehensive in nature and detail examination findings in a narrative format that gives the reader a thorough analysis of the integrity of the association's systems and their strengths and weaknesses. These reports are signed by the person who led the specialized examination.

#### **Ratings**

In connection with compliance examinations, examiners will assign two ratings to the association — one for compliance itself, and one for CRA performance.

#### **Examination Frequency**

The frequency of examinations is primarily dependent upon the ratings assigned at the previous examination. The lower the ratings, the more frequently the association is to be examined, thus assuring that examination resources are directed

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to those associations that are in most need of examination and supervisory attention.

For example, “1” and “2” rated associations with satisfactory or better CRA performance receive regular examinations on a 24- to 36-month interval. Associations rated “3” and “4” or those with a “Needs to Improve” CRA rating receive regular examinations on a 12- to 18-month interval. Those rated “5” or those with a CRA rating of “Substantial Noncompliance” should receive a regular examination on a 6- to 12-month interval, as deemed appropriate.

Note: Section 712 of the Gramm-Leach-Bliley Act provides for an extended CRA examination cycle for institutions with aggregate assets of not more than \$250,000,000. This recent change in the law is not reflected in the frequency schedule contained in the handbook. When OTS determines how it will implement this statutory section, we will issue revisions to the handbook schedule. In the meanwhile, if you have any questions about the examination schedule applicable to your savings association, please contact your OTS regional office.

### **Concurrent Examinations**

To the extent practicable, examinations under this specialized program are conducted concurrently with safety and soundness examinations. In situations where concurrent examinations are conducted, the interval between examinations is to be driven by the lowest rating assigned. For example, if an association receives a “2” CAMELS rating and a “5” compliance rating at a concurrent examination, according to the frequency schedule, the next examination would be conducted in six to 12 months, the interval that corresponds to a “5” compliance rating. Consequently, since a Region would not need to conduct another safety and soundness examination at that time, the compliance examination should be conducted separately. When concurrent examinations are conducted, the separate examination reports can be sent under a single cover letter. Use of a Supervisory letter is optional.